FINANCIAL REPORTING BULLETIN

December 1997

Financial Reporting Division
Office of Thrift Supervision
1700 G Street, Washington, DC 20552

FOURTH QUARTER TFR DUE DATE
FRIDAY, JANUARY 30, 1998

REVISED TFR INSTRUCTIONS

Twelve pages of revisions to the TFR Instruction Manual dated December 1997 are enclosed. Please insert these pages into your TFR Instruction Manual and remove the superseded pages. **It is important that you refer to these revisions before submitting your fourth quarter TFR.** A summary of the changes follows.

SI500: Average Regulatory Liquidity Ratio

OTS adopted a new liquidity rule effective November 24, 1997. The rule lowers liquidity requirements for savings associations from 5 to 4 percent of the association's liquidity base. The liquidity base has been reduced by modifying the definition of net withdrawable accounts to exclude, at the association's option, accounts with maturities exceeding one year. The new rule requires the calculation once each quarter rather than monthly. Another change removes the requirement that certain obligations must mature in five years or less in order to qualify as a liquid asset. Finally, the rule added certain short-term mortgage-related securities and short-term first lien residential mortgage loans to the list of assets includable as regulatory liquidity. The revised TFR instructions for SI500 reflect this new rule.

CCR450: Twenty Percent Risk-weight Category

Item 5 in the instructions for CCR450 has been corrected to eliminate the inclusion of FHLB notes which should be reported on CCR435.

CCR70: Fully Capitalized Items (Low Level Recourse)

The items to be reported on this line have been expanded to include on-balance-sheet financial instruments established pursuant to SFAS 125 (CNFIs) if the instruments represent subordinated credit risk positions.

CMR473, Government and Agency Securities

Effective with the December 1997 Schedule CMR, all associations with SBA securities should report them on CMR473 through 475, Government and Agency Securities, rather than as commercial loans. Previously, SBA securities were primarily categorized as commercial loans and reported on CMR325 through 330. This triggered edit failures R962 and R964, because SBA securities were reported as securities in Schedule SC and as loans in Schedule CMR. This change provides consistent reporting between Schedules SC and CMR.

If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, TX, or Trudy Reeves in Washington, DC, at 202-906-7317. If you need additional copies of the TFR form or instruction manual, please call 202-906-6078.

TFR FILING SCHEDULE

The December 1997 TFR should be completed and submitted as soon as possible after the close of the quarter. All schedules except CMR are due no later than Friday, January 30, 1998. Schedule CMR is due no later than Tuesday, February 17, 1998. The December Cost of Funds Index is also due January 30, 1998.

REMINDER: You must continue to use the 1997 Sheshunoff electronic filing software in 1998 to transmit December 1997 reports and any amendments of 1997 reports.

The "Financial Reporting Bulletin" is published quarterly by the Financial Reporting Division of the Office of Thrift Supervision and distributed to all OTS regulated institutions. Its purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Comments and suggestions on this bulletin should be sent to Patrick G. Berbakos, Director, Financial Reporting Division, Office of Thrift Supervision, at the above address.

A copy of the 1998 Filing Schedule for the TFR, CMR, COF, and BOS is attached. Please retain this schedule for future reference.

1998 THRIFT FINANCIAL REPORT FORM CHANGES

The 1998 TFR package has been submitted to the Office of Management and Budget for approval and the final notice of changes was published in the Federal Register December 12, 1997, as required by the Paperwork Reduction Act of 1995.

Three documents are enclosed:

- the new 1998 TFR form
- a listing of all line changes
- an explanation of the changes

All TFR report preparers should review these documents and pass them along to the persons responsible for their system changes.

DPSC NEW SOFTWARE VENDOR FOR 1998 FINANCIAL REPORTS

DPSC Software, Inc., has been awarded the new electronic filing software contract. The period of performance will be from January 1, 1998 through December 31, 1999, with an option to renew the contract through 2001. Additional information regarding the new software will be sent to all TFR reporter preparers in January 1998.

Please be sure that your institution information in the user set up option of your Sheshunoff software is correct. We will use this name and address for mailing information in January regarding the new software and to distribute the 1998 TFR Instruction Manual in March.

To review and update your association's information select from the COF/TFR Preparation Main Menu: Option 1, "Set Up Information", then choose option 1 again, "Set Up an Institution." The program then prompts the user to enter their five-digit docket number. At the next screen, the report preparer may review the association's Name, Address, City, State, Zip Code and Region, and verify the "Prepared by" name and phone number and institution type (stock or mutual). After making any changes, the report preparer should press [ESC] to save and exit. This information will be transmitted with your November COF due on December 30. If you have already submitted the report, you may retransmit your COF report with the updated institution data. Please contact Cheyann White at 972-281-2412 if you have any questions.

Reminder: A Windows version of the electronic filing software for the filing of regulatory reports will be available in 1998. A DOS-version will also be made available to those institutions that do not have Windows. The PC requirements to effectively operate the DPSC software are attached: The new DPSC software will be year-2000 compliant.

If you have any questions on the hardware requirements you may contact the DPSC technical helpline at 1-800-825-3772 or visit their website at www.dpscsoftware.com.

OTS WEBSITE

Reminder: The TFR forms and instructions and this Financial Reporting Bulletin are now available on the OTS website (**www.ots.treas.gov**).

Questions & Answers

LINE(S): SC310-345 Q&A No. 014
SUBJECT: Consumer Loans
DATE: December 1, 1997

Question: In reporting consumer loans in Schedule SC, is the collateral or the stated use of the loan proceeds the key to proper reporting?

Answer: The loan should be categorized based on the collateral as long as the collateral fully secures the loan. However, if the collateral is only taken as an abundance of caution, then the purpose would be the key.

For example: A lender made a revolving line of credit to finance college expenses for the borrower's child with a second lien on the borrower's home as collateral. If the loan would otherwise qualify under the lenders' home improvement loan program, it could be considered a 1-4 open-end mortgage loan. However, if the institution wanted to report it as an education loan, OTS would not object. On the other hand, if there was insufficient equity in the home to cover the loan (the lender took a security interest in the loan as an abundance of caution), then the loan should be reported as an education loan.

LINE(S): SC710, SI210/215 Q&A No. 015
SUBJECT: Medical Savings Plans
DATE: December 1, 1997

An institution has started to offer a medical savings plan account. The account offers a pre-tax savings plan to provide for qualified medical expenses. The individual customer deposits money for the medical savings plan up to their maximum allowable amount.

Question 1: Should these medical savings plan accounts be reported as passbook accounts?

Answer 1: In Schedule CMR these accounts should be reported as fixed-maturity deposits, because they do not have the characteristics of a passbook account. The original maturity would typically be 12 to 36 months because they are 12-month accounts with an additional 3-month grace period for filing claims. The remaining maturity would be based on the number of months until the end of the year plus three months for the grace period.

In Schedule SI, these generally could be reported as demand deposits if they are noninterest bearing and meet the other requirements of demand deposits.

They should not be reported with IRA/Keogh Accounts on SI210.

Question 2: If a customer has an unrelated $98,000 CD and a $9,000 MSA, would the full $9,000 Medical Savings Account be insured?

Answer 2: No, only the aggregated amount up to $100,000 would be insured. Medical Savings Accounts must be aggregated with other savings accounts in determining deposit insurance.

LINE(S): CCR450/480/505 Q&A No. 016
SUBJECT: Hierarchy of Risk-weighting
DATE: December 1, 1997

Question 1: Can 1-4 FHA/VA conditionally guaranteed, insured mortgage loans, that are nonperforming be reported with performing loans in the 20% risk-weight category, since they will eventually recover?

Answer 1: Yes, include the FHA/VA conditionally guaranteed part in 20% risk-weight despite being nonperforming. Only the guaranteed portion should be risk-weighted at 20% with the remainder in 100% risk-weight.

Question 2: Would the nonaccrual status of loans take precedence for 100% risk-weight classification, even if the loans were more than fully secured by cash, where no risk would actually exist?

Answer 2: These loans would be risk-weighted at 20% if collateralized by cash held in a segregated deposit account by the reporting savings association.

Question 3: Would a construction loan that is FHA/VA secured, but that does not meet the test for a "qualifying residential construction loan" qualify for less than 100% risk-weighting?

Answer 3: Yes, the portion of assets conditionally guaranteed by U.S. government agencies (e.g., VA/FHA) is risk-weighted at 20%. Reminder: only the guaranteed portion should be risk-weighted at 20%, with the remainder risk-weighted at 100%.

LINE(S): **SI590/595** **Q&A No. 017**
SUBJECT: **Extensions of Credit to Officers**
DATE: **December 1, 1997**

Question: Should the credit provided for employees before they become officers be included as extensions of credit on lines SI590/595, in the quarter that they actually become officers?

Answer: Yes, extensions of credit should be included in SI590/595 even though they were made before the employee became an officer. Even if the loan is beyond what is permitted by Regulation O, it may remain on the books. However, if the extension of credit is modified or renewed in any way it must conform to the regulation, since the individual is now an insider. In essence, the extension of credit is reported, but grandfathered, under current terms. The one exception would be a situation where the extension of credit was made immediately before the appointment to circumvent the regulations.

LINE(S): **SC240, CC105** **Q&A No. 018**
SUBJECT: **Construction Participations**
DATE: **December 1, 1997**

An institution has made a construction loan for a hotel and they are participating out a portion of it. The institution has disbursed $700,000 to date, of which $300,000 was contributed by the other participants. This leaves a total of $300,000 as LIP.

Question 1: How is this accounted for? Does the institution show only their share of the disbursed amount in Schedule SC? If so, how is CF completed?

Answer 1: All participants should report their proportionate share of the construction loan on SC240. The increase in SC240 should be reported on CF210.

Question 2: How is the LIP reported in Schedule CC? All, or only the reporting institution's part? Will the participated amount be shown as loans serviced for others by the lead lender?

Answer 2: If the participants are all liable on the construction loan, they should all report their commitment on CC105. If only the lead lender is liable on the construction loan, only the lead lender would report LIP on CC105.

In either case the lead lender, as the servicer, should report the portion of the outstanding balance of the loan that is owned by the other participants on SI390.

LINE(S): **CSS110:150** **Q&A No. 019**
SUBJECT: **Annual Listing of Service Corporations**
DATE: **December 1, 1997**

Question 1: What is required on CSS120 through 160 to reflect the "total assets of the entity?"

Answer 1: Data should be reported for a subsidiary on a stand-alone basis, i.e., unconsolidated. It is not intended that extraordinary efforts be made to obtain the financial data requested in CSS. An institution's best efforts, within reason, should be made to present accurate data; however, reasonable assumptions and estimates will be accepted.

Question 2: If all of the subsidiaries of the thrift parent are sequentially listed, column-by-column, using the various business codes, then, should each individual subsidiary be applying the equity method as they report balances on CSS120:160?

Answer 2: In reporting assets they should include the investment in lower tier subsidiary on the equity method; however, net income should be stated for the subsidiary being reported on only. All subsidiaries of all tiers should be listed.

Question 3: If a subsidiary has a fiscal year-end of June 30th, what should be reported on line CSS150: Net Income for the calendar year?

Answer 3: Net income should be reported for the calendar year. Exceptions can be made where data for the period from the fiscal year end to the end of the calendar year are not available. However, this should be rare.

LINE: Schedule PD Q&A No. 020
SUBJECT: Calculation of Past Due
DATE: December 1, 1997

Question 1: Are escrows included in the calculation of cycles past due?

Answer 1: Escrows are included in the calculation of cycles past due if they are contractually required and legal.

Question 2: How are partial payments treated? For example: If a borrower is paying $25 per month on a loan with payments due of $100 per month, at the end of two months would the loan be two cycles past due and, therefore, reported on Schedule PD, or would it be one cycle past due and not reported on Schedule PD?

Answer 2: After the second payment, the loan is 15 days past due, and is, therefore, less than one cycle (30 days) past due. After the third payment, the loan is 37.5 days past due and is, therefore, more than one cycle (30 days) past due. Note the computations below:

	After Payment 2	After Payment 3
Full payment amount (b)	100	100
Partial payment made	(25)	(25)
Partial payment not made	75	75
Number of months	x 2	x 3
Total balance due	150	225
Amount not "past due"	(100)	(100)*
Balance "past due" (a)	50	125
Past due factor (a ÷ b)	0.50	1.25
Days in cycle	x 30	x 30
Days past due	15.0	37.5
"Past due" Category	< 30	30-90

* It is assumed that partial payments are applied first to the oldest components of the balance. Accordingly, the unpaid portion of the current month is not yet "past due."

LINE: CCR Q&A No. 021
SUBJECT: Risk-weighting Receivables from Brokers
DATE: December 1, 1997

Question: When an association sells a security, it books a receivable in Other Assets during the period between the trade date and the settlement date. Are such receivables risk weighted at 100%? For instance, if the receivable is created through the sale of a government security, that receivable would be risk-weighted higher than the original security, even though settlement has not taken place. Is this correct?

Answer: Receivables are risk-weighted according to the debtor. For example, if it is a claim on a domestic depository institution, it is risk-weighted at 20%; if it is conditionally guaranteed by the United States, it is also risk-weighted at 20%. If it is due from a broker/purchaser and unsecured, it is risk-weighted at 100%, but may be risk-weighted at a lower risk-weight if the claim is collateralized by lower risk-weighted assets as explained below.

This receivable is risk-weighted differently than the original security because the institution has a different asset than it did previously. The association no longer has the U.S. Government's unconditional guarantee. Therefore, the receivable must be risk-weighted at a higher level. However, if the reporting association can legally enforce its claim, including taking legal possession of the collateral free and clear of enforceable claims of others and the securities under sale qualify for 0% or 20% risk-weighting, the amount due from the broker/purchaser is risk-weighted at 20% and reported on CCR430 if the collateral is a mortgage security, or CCR450 if the collateral is another U.S. Government security.

LINE(S): SC45/55 CCR370/505 Q&A No. 022
SUBJECT: Partial Use of an Office Building
DATE: December 1, 1997

Question: An institution owns property that it intends to develop into an office building. The plans for the building are for a twelve-story building, two floors of which will be occupied by retail businesses and ten will contain offices. The institution intends to occupy five floors of the building. Because the institution will only partially occupy the building, can they still include it as "office premises" on SC55 and risk-weight it at 100%, or must it be considered real estate held for investment reported on SC45, which they must deduct from capital on CCR370? Should it be prorated?

Answer: The entire building may be included as "office premises," risk-weighted at

100%, as long as 25% or more of the building is used by the institution or is intended for future use.

LINE(S): SO493/494 Q&A No. 023
SUBJECT: FHLB Dividends
DATE: December 1, 1997

Question: Must institutions report FHLB dividends in Other Noninterest Income every quarter?

Answer: Yes, dividends should always be reported unless the dividend rounds to less than $1 thousand.

FHLB dividends are declared every quarter, either in cash or stock. When FHLB cash dividends are declared, they should be accrued. FHLB stock dividends must also be reported in income in accordance with the AICPA "Bank and Savings Institutions Audit and Accounting Guide," paragraphs 5.88 through 5.92; however, in the case of stock dividends, the FHLB stock asset account is debited, rather than cash.

LINE(S): SC330 Q&A No. 024
SUBJECT: Loans Secured by Stock
DATE: December 1, 1997

Question: A loan is secured by stock (traded on the New York Stock Exchange) and is made to an individual for the purpose of buying more stock. Where should this be reported on Schedule SC?

Answer: This loan should be reported on SC330 (Other Closed-end Consumer Loans, Including Leases).

If the thrift has $200,000 or more in credit secured directly, or indirectly, by margin stock extended in the last quarter, it must register with the Federal Reserve Bank in its district and follow the requirements of Regulation G. Regulation G requires the use of certain FRB forms for reporting such transactions and also limits covered loans to 50% of the value of the stock at the time of purchase. See OTS Thrift Activities Handbook Section 562, Margin Securities (Regulation G).

LINE(S): SC690/SC796 Q&A No. 025
SUBJECT: Other Asset and Liability Codes
DATE: May 23, 1997

Question: How should the detail lines under Other Assets and Other Liabilities be reported? Should the institutions code all items in the other category, sum them by code and report the three largest, or report the three largest without summation. This could, of course, result in the same code being used for two or even all three of the detail lines.

Answer: The accounts should be aggregated by code, so that a code only appears once. Once they have been aggregated, the three largest items should be reported. Code 99 is the only code that may appear more than once.

LINE(S): SC326 Q&A No. 026
SUBJECT: **Classification of Mobile Home Loans as Mortgages**
DATE: **December 1, 1997**

Question: An institution is building up a portfolio of mobile home loans. Some are straightforward consumer loans. Others, however are loans on the land as well as on the mobile home. The mobile homes are put on concrete pads. Should these loans be reported as mortgage loans?

Answer: Mortgage loans secured by both a developed lot and a mobile home on a fixed site (where the wheels are detached and the home is permanently anchored to a foundation or pad) should be classified and risk-weighted as 1-4 family mortgage loans.

If, however, the mobile home is not fixed to the site, the loan could be classified as either a nonmortgage, mobile home loan, or a mortgage on a developed building lot, based on the relative values of each piece of collateral relative to the loan. For example, if the mobile home was valued at $20,000 and the land at $10,000, the loan generally would be classified as a nonmortgage, mobile home loan. If the numbers were reversed, the loan would generally be classified as a lot loan (mortgage). If the ratio was 50/50, then the institution could classify the loan either way. The percentages are not that critical, so we should let the institution classify the loans as they want, as long as their classifications are reasonable. Of course, the institution could make two separate loans, one on the mobile home, and one on the developed lot.

OFFICE OF THRIFT SUPERVISION

Equipment and Software Requirements for Regulatory Reporting

1997 SHESHUNOFF SOFTWARE	1998 DPSC SOFTWARE		
DISK OPERATING SYSTEM (DOS)	**DISK OPERATING SYSTEM (DOS)**	**WINDOWS**	
Minimum:	***Minimum:***	*Minimum:*	***Preferred:***
IBM compatible computer with monitor	IBM compatible computer with monitor	IBM compatible computer with 486DX-50 Megahertz processor	IBM compatible computer with Pentium Megahertz processor
384K of available RAM memory 2.8 Megs of available hard drive memory Disk Operating System 2.1 or higher	512K of available RAM memory 8 Megs of available hard drive memory Disk Operating System 3.1 or higher	8 Megs of available RAM memory 12 Megs of available hard drive memory Windows versions 3.1, 95 or NT 4.0	16 Megs of available RAM memory 12 Megs of available hard drive memory Windows version 3.1, 95 or NT 4.0
		Color VGA or SVGA monitor	Color VGA or SVGA monitor
1200 bps Hayes compatible modem *	1200 bps Hayes compatible modem *	1200 bps Hayes compatible modem or Winmodem *	9600 bps or higher Hayes compatible modem or Winmodem
Laser jet or dot matrix printer with compressed print capability	Laser jet or dot matrix printer with compressed print capability	HP laser or ink jet compatible printer	HP laser or ink jet compatible printer

* ***NOTE***: Although the 1200 bps modem is the minimum requirement for all regulatory reporting software, we recommend using a 9600 bps modem to secure a connection to the network.

Office of Thrift Supervision
Filing Schedule for 1998 Regulatory Reports

Reporting Date	Filing Date: Thrift Financial Report	Schedule CMR	Cost of Funds	Branch Office Surve
January 31			Monday March 2	
February 28			Monday March 30	
March 31	Thursday April 30	Friday May 15	Thursday April 30	
April 30			Monday June 1	
May 31			Tuesday June 30	
June 30	Thursday July 30	Friday August 14	Thursday July 30	
July 31			Monday August 31	**Monday August 24****
August 31			Wednesday September 30	
September 30	Friday October 30	Monday November 16	Friday October 30	
October 31			Monday November 30	
November 30			Wednesday December 30	
December 31	Monday February 1, 1999	Tuesday February 16, 1999	Monday February 1, 1999	

** Branch Office Survey materials will be mailed approximately one month prior to the due date.